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AGENDA ITEM 6

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. **SUBJECT:** Medicare Part D Options for 2008 – First Reading
- II. **PROGRAM:** Health Benefits
- III. **RECOMMENDATION:** Information only
- IV. **ANALYSIS:**

Background

The Medicare Prescription Drug, Improvement, and Modernization Act established a voluntary prescription drug benefit program (Part D) effective January 1, 2006.

Below is a summary of CalPERS participation in Part D:

For 2006:

- CalPERS applied for the Retiree Drug Subsidy (RDS) for Medicare-eligible members not enrolled in the Kaiser Medicare Senior Advantage program in September 2005; staff expects approximately \$51 million in federal RDS payments for calendar year 2006.
- Kaiser enrolled its CalPERS Medicare Senior Advantage members in the Medicare Advantage Prescription Drug (MA-PD) plan.
- CalPERS requested an Attorney General opinion regarding various Part D issues at the direction of the Health Benefits Committee. The Committee deferred a decision on how to distribute the RDS for 2006, pending a response from the Attorney General.

For 2007:

- 2006 state budget control language required CalPERS to participate in Part D for 2007 in the same way as 2006 (i.e., apply for the RDS for all Medicare-eligible members except Kaiser Senior Advantage members).
- CalPERS staff expects approximately \$56.5 million in federal RDS payments for calendar year 2007.

For 2008:

- 2006 state budget control language provides, “If the Board of Administration of the Public Employees’ Retirement System wishes to propose an amended approach concerning applications for Medicare Part D drug subsidy funds in 2008 or a use for Medicare Part D drug subsidy funds expected to be accumulated in the Special Deposit Fund, the Board of Administration shall submit a proposal for these purposes to the Chair of the Joint Legislative Budget Committee, the chairs of the appropriate fiscal and policy committees of the Legislature, and the Director of Finance on or before December 1, 2006.”
- Staff seeks direction from the Committee on whether to pursue an amended approach to Part D or continue with the RDS for 2008, in light of the following factors:
 1. The estimated net revenue is higher with the RDS than the health plan based Prescription Drug Plan (PDP).
 2. If CalPERS proposes pursuing the health plan based PDP for 2008, it is likely that the Legislature, upon recommendation of the Department of Finance, will pass budget control language similar to the 2006 budget control language requiring CalPERS to apply for the RDS.
 3. The Attorney General opinion is still pending.

Review of RDS and Health Plan Based PDP Comparison

The staff analysis provided to the Health Benefits Committee in April and May 2006 included a comparison of the RDS and health plan based PDP using four criteria: disbursement flexibility, ease of administration, member impact, and federal financial participation. Below is a summary of the comparison.

Disbursement flexibility: Under the RDS, CalPERS would continue to deposit RDS payments into an escrow-type account, pending its receipt of the Attorney General’s opinion regarding Part D. After receipt of the Attorney General’s opinion, staff would present an action item to the Health Benefits Committee for the distribution of RDS funds. Under the health plan based PDP, the use of federal payments to CalPERS health plans is not dependent on Board action based on the opinion of the Attorney General. That is, if not otherwise curtailed by 2007 state budget control language, CalPERS independently could decrease premiums and/or buy-down prescription drug co-payments for 2008.

Ease of administration: CalPERS has already established its systems to administer the RDS including the distribution of creditable coverage letters to members. Administration of the health plan based PDP is relatively complex with numerous services required by the Centers for Medicare and Medicaid Services (CMS) for member support, marketing reporting, and systems support. Blue Shield and Medco (Pharmacy Benefits Manager for our self-funded plans) would participate as health plan based PDPs and Kaiser would participate as a Medicare Advantage Prescription

Drug (MA-PD) plan for its CalPERS Senior Advantage members. CalPERS would continue to administer an RDS program for a small number of CalPERS Kaiser members who are not Senior Advantage members and for all Medicare-eligible Western Health Advantage (WHA) members.

Member impact: Under the RDS, enrollees would continue receiving their prescription drugs without disruption. Under the health plan based PDPs, Medco and Blue Shield informed us that there would be minor formulary adjustments affecting the tier assignment of selected drugs for our self-funded and Blue Shield plans. For the self-funded plans, CalPERS could choose to place these drugs in their current tier, so there would be no disruption to enrollees. This, however, would result in the loss of some rebates. Blue Shield informs us that CMS requirements for PDPs would result in Blue Shield adding some drugs to its formulary that are now non-formulary. This would reduce co-pays for these drugs because formulary drugs have lower co-pays than non-formulary drugs. There would be no impact to rebates.

Also, if CalPERS had implemented the health plan based PDP in 2007 and reduced premiums and co-pays (eliminated generic and reduced brand formulary co-pays from \$15 to \$10):

- Kaiser would not have reduced its Medicare premium since Kaiser already accounted for its expected Part D payments when it proposed premiums; its single party monthly Medicare rate would have increased by \$24 to account for reduced pharmacy co-payments.
- WHA would not have participated as a PDP, and its single party monthly Medicare rate would have increased by \$26 as a result of the co-payment reductions.

Federal financial participation: Estimated net revenue from the RDS is approximately \$4 million more than from the plan based PDP (see detail under “Estimated Net Revenue” below).

Estimated Net Revenue

CMS bases RDS payments on 28 percent of drug costs between specified dollar thresholds per calendar year, using claims experience for RDS-eligible members. CMS calculates payments to PDPs using an annually published national average of PDP bids for retiree prescription drug coverage, which CMS risk-adjusts based on the demographics of each health plan.

The chart below shows estimated net revenue (federal payments less administrative cost) under the RDS and the health plan based PDP for 2007. Staff updated the health plan based PDP revenue estimate we presented to the Health Benefits Committee in June 2006 to reflect the 2007 national average PDP bid that CMS recently published. The PDP estimate represents what CMS would have paid if CalPERS had implemented the health plan based PDP for 2007. This amount is not necessarily indicative of the revenue available in 2008 since that amount depends on the national average bid CMS will publish by September 2007.

2007 ESTIMATED NET REVENUE		
	Retiree Drug Subsidy	Plan Based PDP
Blue Shield	\$ 9,835,731	\$ 12,878,208
PERS Choice	\$ 15,614,800	\$ 14,326,644
PERSCare	\$ 31,282,316	\$ 25,976,735
WHA	\$ 194,005	N/A *
TOTAL	\$ 56,487,852	\$ 52,742,586

* WHA will not be a PDP; if CalPERS implements the health plan based PDP for 2008, CalPERS would apply for the RDS for WHA members.

At the November 2006 Health Benefits Committee, staff will present an agenda item comparing the alternatives, including the fiscal impact and administrative costs, and providing a recommended Part D option for 2008. This timing will enable CalPERS to meet the December 1, 2006 deadline specified in the 2006 state budget control language if the Board decides to pursue the health plan based PDP option rather than continue with the RDS option for 2008.

V. STRATEGIC PLAN:

This issue relates to the CalPERS Strategic Plan, Goal X to "Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers."

VI. RESULTS/COSTS:

This is an information only item.

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